

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 JUSE-00 PA-01 L-03 /095 W

-----069171 111050Z /16

R 110936Z MAY 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 5630

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

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E.O. 11652: N/A

TAGS: EINV, RP

SUBJECT: PD 1352 WIPES OUT TAX-FREE IMPORTATIONS (II)

REF: MANILA 7633

1. SUMMARY. PD 1352 HAS ALARMED THE 17 SEMICONDUCTOR MANUFACTURERS WHO HAD INVESTED WITH ASSURANCES OF DUTY-FREE IMPORTATIONS OF EQUIPMENT AND SPARE PARTS. THESE COMPANIES INCLUDE BOTH FOREIGN AND FILIPINO INVESTORS. THEY HAVE FORMED ASSOCIATION OF INTEGRATED CIRCUIT MANUFACTURERS TO PRESS THEIR CASE WITH THE GOP. BOARD OF INVESTMENTS IS STRONGLY SUPPORTING ITS CLIENTS FOR A GRANDFATHER CLAUSE TO PD 1352, WHICH REPORTEDLY WAS INSTIGATED BY MRS. MARCOS AS A MEANS OF OBTAINING FUNDS TO IMPLEMENT PROMISES MADE DURING RECENT ELECTION CAMPAIGN.

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END SUMMARY.

2. ONE DIRECT RESULT OF PD 1352 WHICH WIPED OUT TAX-FREE IMPORTATIONS FOR BOI-REGISTERED EXPORT FIRMS WAS TO GALVANIZE THE 17 SEMICONDUCTOR MANUFACTURERS IN THE PHILIPPINES TO FORM THE ASSOCIATION OF INTEGRATED CIRCUIT MANUFACTURERS (AICM) ON MAY 3. A CHARTER IS BEING DRAFTED,

AND NOMINAL LEADERSHIP HAS BEEN GIVEN TO DYNETICS VICE PRESIDENT VICENTE CHUIDIAN, A FILIPINO.

3. ALL 17 MEMBERS OF AICM MET MAY 10 WITH CONRADO SANCHEZ, GOVERNOR OF THE BOARD OF INVESTMENTS WHO IS RESPONSIBLE FOR THE EXPORT SECTOR, AND ASKED THAT THE GOP HONOR ITS COMMITMENT FOR DUTY-FREE IMPORTATIONS OF EQUIPMENT AND SPARE PARTS AS GIVEN IN THE INDIVIDUAL CERTIFICATES OF AUTHORIZATIONS ISSUED BY THE BOARD OF INVESTMENTS. SANCHEZ PROMISED THAT BOI WILL SEEK A GRANDFATHER CLAUSE TO THE IMPLEMENTING REGULATIONS OF PD 1352, A PROMISE ALREADY PUBLICLY PROCLAIMED. BOTH BOI AND THE AFFECTED FIRMS (WHICH INCLUDE BOTH FILIPINO AND FOREIGN) ARE NOW CASTING ABOUT FOR WAYS AND MEANS TO INFLUENCE THE DEPARTMENT OF FINANCE AND ITS BUREAU OF INTERNAL REVENUE TO THAT END.

4. AICM HAS POINTED OUT THAT ITS 17 MEMBERS NOW EMPLOY 20,000 WORKERS, MOSTLY FEMALE. UNDER OUTSTANDING CERTIFICATES OF AUTHORIZATION, EXPANSION PLANS WOULD PROVIDE AN ADDITIONAL 30,000 JOBS. ONE LEADING FIRM NOW EMPLOYES 1,800 AND IS PLANNING A NEW PLANT WITH 82,000 SQUARE FEET WITH AN EMPLOYMENT OF 2,200. IT IS NOW UNDECIDED WHETHER TO GO AHEAD WITH THIS 4 MILLION DOLLAR INVESTMENT.

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5. ANOTHER FIRM IS COMPLETING AN ADDITION TO ITS PRESENT PLANT AND WILL SOON BRING IN 1 MILLION DOLLARS WORTH OF EQUIPMENT. THE 5 PERCENT CUSTOMS DUTY AND 5 PERCENT INTERNAL REVENUE TAX IN PD 1352 ACTUALLY AMOUNT TO ABOUT 12 AND A HALF PERCENT SINCE THEY ARE COMPUTED ON LANDED OR CIF VALUE. THIS FIRM IS ALSO PLANNING A NEW BUILDING WORTH 2 MILLION DOLLARS WITH 2 MILLION DOLLARS IN IMPORTED EQUIPMENT. UNDERSTANDABLY IT DOES NOT WANT TO PAY 250,000 DOLLARS IN TAXES SINCE IT MADE ITS PLANS IN GOOD FAITH THAT THE BOI AGREEMENT ON TAX-FREE IMPORTATION WOULD BE HONORED.

6. WHAT REALLY BOTHERS THE SEMICONDUCTOR MANUFACTURERS IS NOT THE IMPOSITION OF THE TAXES, BUT THE ABRUPT AND ARBITRARY MANNER IN WHICH THEY WERE IMPOSED. THE DECREE WAS SIGNED ON ONE DAY AND MADE EFFECTIVE IMMEDIATELY, APPLYING RETROACTIVELY TO AUTHORIZED IMPORTATIONS THAT WOULD TAKE PLACE OVER A PERIOD OF TIME AS A PLANT IS COMPLETED AND EXPANDED. THAT SUCH DECREE MAKING POWER COULD BE SO EXERCISED HAS BECOME AN UNSETTLING FACTOR AMONG FOREIGN INVESTORS.

7. EMBOFF ASSURED FIRMS CONTACTED THAT EMBASSY IS MONITORING SITUATION CLOSELY, AND THAT WE HAD RAISED SUBJECT

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INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
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LAB-04 SIL-01 JUSE-00 PA-01 L-03 /095 W
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WITH PATERNO WHO SAID HE WAS SEEKING FORMALLY GRANDFATHER
CLAUDE FROM DEPARTMENT OF FINANCE. IN MEANTIME, WE HAVE
HEARD A STORY IS MAKING THE ROUNDS THAT PD 1352 WAS INVESTIGATED BY MRS. MARCOS WHO IS SEEKING FUNDS TO IMPLEMENT PROMISES MADE DURING THE RECENT ELECTION CAMPAIGN. THIS STORY IS WHAT IT IS, A RUMOR, BUT WE HAVE NOT YET ENCOUNTERED ANY UNBELIEVERS. TOUSSAINT

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Message Attributes

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